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IN THE

Supreme Court of the United States

QUANTA COMPUTER, INC., QUANTA COMPUTER USA, INC., Q-LITY COMPUTER, INC.,
Petitioners,

v.

LG ELECTRONICS, INC.,
Respondent.

On Writ of Certiorari to the United States Court of Appeals for the Federal Circuit

BRIEF FOR *AMICI CURIAE* NOKIA CORPORATION AND NOKIA INC. IN SUPPORT OF PETITIONERS

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BRIEF FOR *AMICI CURIAE* NOKIA CORPORATION AND NOKIA INC. IN SUPPORT OF PETITIONERS

INTEREST OF *AMICI CURIAE*[1]

Nokia Corporation and Nokia Inc. (collectively "Nokia") form the world's leading manufacturer of wireless communication devices, and Nokia is a leader in mobile networks. Nokia Inc. operates in the

[1] Counsel for both parties have consented to the filing of this brief, and their consents have been filed with the Clerk of this Court. No counsel for either party had any role in authoring this brief, and no person other than the named *Amici* and their counsel has made any monetary contribution to the preparation and submission of this brief. *See* Rule 37 & 37.6.

United States. In 2006, Nokia's worldwide net sales totaled $54.3 billion. Nokia sold over 345 million mobile devices worldwide, many millions of which were sold in the United States. Nokia employs over 68,000 people worldwide and invests heavily in research and development. As a leading innovator in the wireless space, Nokia owns approximately 10,000 patent families.

Technology companies such as Nokia rely both upon the patent laws, which provide a grant of exclusive rights as an incentive for capital investment in research and development, and upon the contract laws, which allow parties in the technology markets to sell, license and structure their capital investments as efficiently as possible. Nokia files this brief to urge reversal of the Federal Circuit's decision below, which tips the balance too far in favor of patent rights, and to find patent exhaustion on the facts of this case. At the same time, Nokia urges this Court not to announce too sweeping a rule of patent exhaustion. Flexibility in contracting over intellectual property rights is a necessary feature of the efficient operation of technology markets. Nokia respectfully urges this Court to announce a rule of patent exhaustion that will prevent "double dipping" by patent holders while still allowing flexibility in licensing technology.

SUMMARY OF ARGUMENT

By statute, a patent grants its owner "the right to exclude others from making, using, offering for sale, or selling" the patented invention in the United States. 35 U.S.C. § 154. When a patent holder first sells patented goods or authorizes licensees to sell

such goods, it surrenders this right to exclude and its patent rights are said to be exhausted.

The patent exhaustion doctrine is an important check on the ability of patent holders to exploit the modern technology industry, which relies on complex supply chains to assemble products that ultimately reach the consumer. Robust enforcement of the patent exhaustion doctrine will prevent patent holders from extracting multiple royalties for the right to exclude for the same invention. The patent holder should be able to pick a point in the supply chain at which to extract royalties—but once that point is chosen and the patent holder receives value for its invention, the patent holder should be stuck with its choice.

In the case before the Court, the Federal Circuit has departed from these principles, allowing a patent holder to unilaterally extend patent rights past the point of first sale to downstream users of goods that embody the patented invention. This Court's precedents are to the contrary, and should be enforced here to prevent the patent holder from engaging in such "double dipping."

The patent exhaustion doctrine, however, should at the same time recognize the need for technology companies and others to have flexibility in contracting their intellectual property rights. Patent holders should be free to license their patent rights under various restrictions—bounded at the outer extremes by the antitrust laws.

For instance, this Court's precedents allow a patent owner to license another party to practice the invention in only a particular geographic area or for only a particular purpose. *See General Talking*

Pictures Corp. v. Western Electric Co., 305 U.S. 124 (1938). The patent owner can even set the price at which its licensee sells the article manufactured under the license. *United States v. General Electric Co.*, 272 U.S. 476 (1926).

The flexibility of these contractual arrangements has well served the technology industry and has allowed markets efficiently to value, use and exploit patented inventions. This, in turn, has fostered robust markets for intellectual property rights and great technological progress—exactly the purpose of the patent laws.

The patent exhaustion doctrine should apply where the patent holder has fully exploited the value of the patent—for example by receiving royalties in exchange for allowing use or sale of the invention. If, upon objective examination of the substance of the contract in question, the patent holder has received such value for its invention, it may be presumed to have consented to goods embodying the invention entering the stream of commerce. The doctrine should be flexibly applied, however, to take into account the myriad types and scope of patents and contracts in the marketplace. Absolute rules can have unintended consequences, especially for technology industries that rely upon a complex web of contracts and intellectual property rights. Accordingly, a variety of licensing arrangements, agreements not to assert patents against contract counterparties, and other contract agreements in the technology area should remain unlimited by the patent exhaustion doctrine.

ARGUMENT

Patents embody a balance between free competition and government-granted exclusive rights. "The Patent Clause itself reflects a balance between the need to encourage innovation and the avoidance of monopolies which stifle competition without any concomitant advance in the 'Progress of Science and useful Arts.'" *Eldred v. Ashcroft*, 537 U.S. 186, 215 (2003) (citing *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, 489 U.S. 141, 146 (1989)); *see Mazer v. Stein*, 347 U.S. 201, 219 (1954).

Patent law pervasively seeks to strike a balance between these competing interests. Some features of patent law ensure adequate returns to the large fixed costs of research and development. For example, Congress has decided upon a 20-year term for patents. *See* 35 U.S.C. § 154. Other features of patent law seek to preserve opportunities for future innovation. For example, there is a statutory safe harbor for activities that would otherwise constitute patent infringement if undertaken for purposes reasonably related to the development and submission of information under a federal law that regulates drugs. 35 U.S.C. § 271(e); *Eli Lilly and Co. v. Medtronic, Inc.*, 496 U.S. 661 (1990) (exemption applies to medical devices); *Merck KGaA v. Integra Lifesciences I, Ltd.*, 545 U.S. 193 (2005) (exemption applies to preclinical research).

This balance has served the United States patent system and the progress of science in the nation very well. The key to this balance is the recognition that there are interests in promoting innovation on *both* sides of any patent. As this Court stated in *Bonito Boats*, "[f]rom their inception, the federal patent laws have embodied a careful balance between the need

to promote innovation and the recognition that imitation and refinement through imitation are both necessary to invention itself and the very lifeblood of a competitive economy." 489 U.S. at 146.[2]

In this case, this Court should interpret the patent exhaustion doctrine to restore a balance, upset by the Federal Circuit in the decision below, between a patent owner's freedom to contract with its immediate purchasers and licensees, and the right of downstream purchasers to be free from duplicative exploitation that exceeds the purposes of the patent laws. Such a balance will allow appropriate flexibility in contractual arrangements involving patented technologies.

I. THIS COURT HAS LONG STRUCK A BALANCE BETWEEN PATENT EXHAUSTION AND LEEWAY FOR PATENTEES TO CONTRACT WITH RESPECT TO PATENT RIGHTS

This Court's precedents provide that patent rights are extinguished when a patent owner has received full value for parting with its right to exclude others from practicing the invention. At the same time, they allow patent holders (subject, at the outer limits, to the antitrust laws if market power is established) to contract freely with purchasers or licensees with respect to patent rights. While reversal is called for

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[2] The related context of copyright law also requires a balance between preserving incentives to intellectual property holders and p[illegible]ecting the rights of others to develop new technologies such that "the gains on the copyright swings would exceed the losses on the technology roundabouts." *Metro-Goldwyn-Mayer Studios Inc. v. Grokster, Ltd.*, 545 U.S. 913, 960 (2005) (Breyer, J., concurring).

here because patent exhaustion is appropriate on the facts of this case, patent exhaustion should not be construed so sweepingly as to eliminate the flexibility provided in the latter line of cases.

A. Patent Laws Provide A Circumscribed Set Of Rights That May Not Be Unilaterally Extended By The Patent Owner To Downstream Purchasers

This Court has long held that the unrestricted and authorized sale of a product embodying a patent exhausts the patentee's power over the product. For example, in *United States v. Univis Lens Co.*, 316 U.S. 241 (1942), the Court stated:

> [T]he patent law is fulfilled with respect to any particular article when the patentee has received his reward for the use of his invention by the sale of the article, and . . . once that purpose is realized the patent law affords no basis for restraining the use and enjoyment of the thing sold. . . . The first vending of any article manufactured under a patent puts the article beyond the reach of the monopoly which that patent confers.

Id. at 251. Thus, "where a patentee makes a patented article, and sells it, he can exercise no future control over what the purchaser may wish to do with the article after his purchase" because "[i]t has passed beyond the scope of the patentee's rights." *United States v. General Electric Co.*, 272 U.S. 476, 489 (1926) (citations omitted).

Of particular relevance to the current case are this Court's decisions concerning patent holders' attempts to fix notices to patented articles to try to retain rights over the articles once they are in commerce. In

Motion Picture Patents Co. v. Universal Film Mfg. Co., 243 U.S. 502 (1917), for example, the plaintiff owned a patent directed to the mechanism that feeds film through the projectors. The Court found that "the mechanism covered by the patent in suit is the only one with which motion picture films can be used successfully." *Id.* at 508. The patent holder entered into a contract with a film projector manufacturer, licensing that company to make and sell film projectors under the patents. In the contract, however, the manufacturer covenanted to attach a notice to each film projector that it was only to be used with films owned or leased by plaintiffs. *Id.* at 506-07. Thus, the patent owner was attempting to restrict the use of the projector even against downstream purchasers and users of the projector. This Court refused to allow such restrictions.

Motion Picture noted that "the notice restrictions have nothing to do with the invention which is patented, but relate wholly to the materials to be used with it." *Id.* at 512. Thus, the Court concluded that the patent holder should not be permitted "by notice attached to its machine," to "in effect, extend the scope of its patent monopoly by restricting the use of it to materials necessary in its operation, but which are no part of the patented invention, or to send its machines forth into channels of trade of the country subject to conditions as to use or royalty to be paid, to be imposed thereafter at the discretion of the patent owner." *Id.* at 516.

Similarly, in *Univis Lens Co.*, 316 U.S. 241, the United States sought to restrain a licensing scheme entered into by the owner of patents related to eyeglass lenses. The patent owner licensed a subsidiary to manufacture lenses and to sell them

to designated licensees of the corporation. The manufacturing subsidiary paid the patent owner $0.50 per pair of lenses. The designated licensees included "finishing retailers" who would polish the blank lenses for prescription and sell them to "prescription retailers" who, in turn, sold them to consumers. The patent owner set the prices for each sale: manufacturer to polisher, polisher to retailer, retailer to consumer. This Court did not allow the patent owner to use the patent laws to coerce restrictions on downstream sales. The reason the patent owner could not place restrictions on those sales was that the patent owner had allowed an authorized sale of the lenses to take place: "the authorized sale of an article which is capable of use only in practicing the patent is a relinquishment of the patent monopoly with respect to the article sold." *Id.* at 249. The Court reasoned that sale of a patented article (or an article that has no use other than to infringe the patent) "exhausts the monopoly in that article and the patentee may not thereafter, by virtue of his patent, control the use or disposition of the article." *Id.* at 250.

B. A Patent Owner Also Retains The Power To Set the Terms for Contracting Away Its Patent Rights

In contrast to the above patent exhaustion precedents, many decisions of this Court have upheld creative contractual restrictions imposed by patent holders. For example, in *General Electric Co.*, 272 U.S. 476, the United States sought to enjoin General Electric's ("GE") licensing of patents relating to incandescent electric light bulbs. It was undisputed that General Electric owned three basic patents that "cover completely the making of the modern electric

lights with the tungsten filaments, and secure to the General Electric Company the monopoly of their making, using, and vending." *Id.* at 481. GE licensed these patents to the Westinghouse Company with the condition that Westinghouse could sell light bulbs only at the prices set by GE.

This Court held that GE's contract was permissible:

> Conveying less than title to the patent or part of it, the patentee may grant a license to make, use and vend articles under the specifications of his patent for any royalty, or upon any condition the performance of which is reasonably within the reward which the patentee by the grant of the patent is entitled to secure.

Id. at 489. The Court in *General Electric* confirmed that the right to set prices is within the patent grant as "[o]ne of the valuable elements of the exclusive right of a patentee is to acquire profit by the price at which the article is sold." *Id.* at 490.

This Court has also confirmed that licenses can include restrictions on the field of use in which the licensee is permitted to make or sell the patented invention. In *General Talking Pictures Corp. v. Western Electric Co.*, 305 U.S. 124 (1938), a patent holder licensed to a manufacturer its patents for sound reproducing equipment, but expressly prohibited the sale of the equipment to movie theaters. The licensee made equipment that embodied the patented inventions, but, in violation of the license, sold the equipment to a supplier for movie theaters. The Court found that the license restriction was legal, and that, once the license was violated, the sales were outside the scope of the license and subject to claims for patent infringement. *Id.* at 127.

The antitrust laws provide a check to prevent a patent holder from enforcing restrictions via contract that are beyond the reasonable scope of a patent grant. *See Illinois Tool Works, Inc. v. Independent Ink, Inc.*, 547 U.S. 28, 46 (2006) (holding that, while market power cannot be presumed from a patent, where plaintiff can establish market power, an agreement that ties a patent license to purchase of non-patented items may violate the antitrust laws). The antitrust laws do not automatically void license restrictions; for example, licenses that contain grant-back clauses are not per se illegal. *See Transparent-Wrap Machine Corp. v. Stokes & Smith Co.*, 329 U.S. 637, 647-48 (1947) (finding "no specific prohibition against conditioning a patent license on the assignment by the licensee of improvement patents" but recognizing that these practices do not necessarily have "immunity under the anti-trust laws"). Patent pooling through cross-licensing is also permissible provided the pooling does not have an anti-competitive effect. *See Standard Oil Co. (Indiana) v. United States*, 283 U.S. 163, 175 (1931) (finding a patent pool was not illegal when it was not "used to effect a monopoly, or to fix prices, or to impose otherwise an unreasonable restraint upon interstate commerce").

C. Application Of Patent Rights To Downstream Purchasers Turns Largely On Whether An Initial Sale Or Use Was "Authorized"

A license provides "authority" for a person other than the patent owner to practice the invention. That authority "may be limited to geographical areas, time periods, certain uses, or a combination thereof." HERBERT F. SCHWARTZ, PATENT LAW AND PRACTICE 40, 42 (2003). If the licensee exceeds the scope of his

authority—e.g., by selling outside the designated geographic area—the patent owner may sue it for patent infringement. *Id.* at 152-53. The Court in *General Electric* explained that, when a licensee acts beyond the scope of the rights conveyed by the patent holder, the licensee's actions are unauthorized and it "may be held for damages and enjoined" under the patent laws. 272 U.S. at 490.

The importance of a sale being "authorized" or not is highlighted by this Court's precedents regarding a property owner's right to repair a patented article that he or she owns. In *Aro Manufacturing Co. v. Convertible Top Replacement Co.*, 365 U.S. 336 (1961) ("Aro I"), the patent at issue was for a combination of elements comprising a convertible roof top for an automobile. Each separate element of the roof top was not patentable; the patent was for the combination. Car owners found that the fabric on the roof—one element of the combination—would wear out. After-market suppliers offered replacement fabric to the car owners, and the patent owner sued the suppliers. The Court held that it was perfectly permissible for the car owners to repair their roof tops when a portion wore out; it was their property. What the car owners could not do was *reconstruct* a roof top from scratch; that would be an infringement. Thus, the suppliers of replacement fabric could not be liable for contributing to, or inducing, infringement.

In the related case of *Aro Manufacturing Co. v. Convertible Top Replacement Co.*, 377 U.S. 476 (1964) ("Aro II"), the issue was similar with one crucial difference: the cars at issue were Ford models as opposed to General Motors cars as in Aro I. The significance was that General Motors in Aro I had a license to the combination patent at issue—the

original manufacture was *authorized* by the patent owner. In Aro II, Ford did not have a license. Thus, the original manufacture and sale by Ford of cars with convertible roof tops was not authorized. Without an original authorization to practice the patented invention, the repair was an infringement:

> The reconstruction-repair distinction is decisive [] only when the replacement is made in a structure whose original manufacture and sale have been licensed by the patentee, as was true only of the General Motors cars; when the structure is unlicensed, as was true of the Ford cars, the traditional rule is that even repair constitutes infringement.

Id. at 480. Thus, this Court concluded in Aro II that the fabric suppliers infringed by assisting car owners in repairing their roof tops. *Id.* at 485-86.

The determining factor in these decisions was the original purchase or use of the patented combination. If the original purchase or use was "authorized"—*i.e.*, no contract was violated—any subsequent repair of the patented combination was acceptable. If the original purchase was not authorized, by contrast, subsequent repairs constituted infringements for which patent remedies were available.

* * *

In sum, contracts in the patent marketplace are as diverse as imagination and economic incentives allow. The overwhelming majority of intellectual property rights are bought, sold, divided and licensed—and are never the subject of litigation. This is how it should be. Against the backdrop of contract law and property interests created by federal patent statutes, these market forces efficiently

allocate rights between parties. In evaluating restrictions placed on the use of patented articles and methods, the key issue is the contractual relationship between the patent holder and the person licensed under the patent. Patent exhaustion to protect downstream acquirers should be balanced against patent holders' freedom to contract.

II. STRIKING A BALANCE BETWEEN PATENT EXHAUSTION AND PATENTEE FREEDOM TO CONTRACT IS ESPECIALLY IMPORTANT TO TECHNOLOGY COMPANIES, WHICH RELY UPON GLOBAL SUPPLY CHAINS AND MYRIAD CONTRACTING ARRANGEMENTS TO EFFICIENTLY ALLOCATE CAPITAL AND PRODUCE CONSUMER GOODS

The patent exhaustion doctrine is an important counterbalance to prevent undue leverage from residual patent rights that can occur as a result of technology companies' reliance on supply chains. There should be flexibility in the doctrine, however, to allow its underlying purposes to be met without unduly restricting technology companies' ability to contract.

A. Supply Chains For Technology Products Provide Opportunities For Royalties To Be Gathered At Different Points Along the Chain

A supply chain is a sequence of steps and transactions often performed by different firms in different locations needed to produce a final manufactured commodity. Each step adds value to

the specific good.[3] Supply chains are now often referred to as "value chains" or "value systems."[4] The manufacture and distribution of mobile phones is a value chain that illustrates the intersection of contract and patent rights.

Mobile phones and personal electronics are ubiquitous today. These devices are complex, assembled in stages through a global supply chain.[5] For in-

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[3] *See* Richard Normann & Rafael Ramírez, *From Value Chain to Value Constellation: Designing Interactive Strategy*, *in* HARVARD BUSINESS REVIEW ON MANAGING THE VALUE CHAIN 185, 187 (2000) ("[E]very company occupies a position on a value chain. Upstream, suppliers provide inputs. The company then adds value to these inputs, before passing them downstream to the next actor in the chain, the customer (whether another business or the final consumer).").

[4] *See* ROBERT B. HANDFIELD & ERNEST L. NICHOLS, SUPPLY CHAIN REDESIGN: TRANSFORMING SUPPLY CHAINS INTO INTEGRATED VALUE SYSTEMS 5 (2002).

[5] "By breaking up a product into subsystems, or modules, designers, producers and users have gained enormous flexibility. Different companies can take responsibility for separate modules and be confident that a reliable product will arise from their collective efforts." Carliss Y. Baldwin & Kim B. Clark, *Managing in an Age of Modularity*, *in* HARVARD BUSINESS REVIEW ON MANAGING THE VALUE CHAIN 1, 3-4 (2000). For instance, one author has suggested that modern corporations, unlike corporations at the middle of the last century, generally do not control all aspects of production such as owning factories, machinery and warehouses. ROBERT B. REICH, THE WORK OF NATIONS 81 (1992). Instead, there is a "web of enterprise" in which major firms contract out the production of components and sell to licensed dealers the right to market finished products. *Id.* at 93. In the global web of modern manufacturing, products are international "composites" and, for instance, "[a] sports car [may be] financed in Japan, designed in Italy, and assembled in Indiana, Mexico and France, using advanced electronic components invented in New Jersey and

stance, the technical heart of a mobile phone is the chip that governs its function.[6]

A "chipset" is a collection of chips. In a mobile phone, the chipset contains the instructions that allow conversion of analog speech signal into coded digital signal. The chipset also organizes and packages data to be sent via the airwaves. The chipset sets up and controls the mobile phone's connection with the local radio tower.

There are many manufacturers of chips and chipsets.[7] These chipsets are then mounted in a module. The module is incorporated into a handset. The handset contains an antenna, a battery, a keyboard and a display—it is the device with which consumers are most familiar.

The handset is activated with software, often for a particular consumer. When used in a telecommunications system, the handset exchanges data with equipment manufactured by many other companies, such as the radio tower, the base station, and the switch or server operated by the phone company or Internet provider.

Parties at each step of the value chain often enter contracts and licenses with each other. With so many components required to form a mobile phone or other

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fabricated in Japan." *Id.* at 112. Such conclusions are especially true for complex devices such as mobile phones.

[6] *See* NEWTON'S TELECOM DICTIONARY 166 (2004) ("Telephone systems . . . [t]ypically [] have one main CPU—a chip—which controls the various functions in the telephone."). A "CPU" or "Central Processing Unit" is "[t]he part of a computer which performs the logic, computational and decision-making functions." *Id.*

[7] *See* PETER VAN ZANT, MICROCHIP FABRICATION 11-12 (2000).

complex electronic devices, parties seek to avoid risk that would jeopardize their right to assemble products. One risk to be avoided is that of the patent "hold-up," wherein a patent directed at a single low-value component or feature of a complex device may put the entire device at risk of patent infringement. *See eBay Inc. v. MercExchange, L.L.C.*, 126 S. Ct. 1837, 1842 (2006) (Kennedy, J., concurring). Hold-ups undermine the goals of the patent system by providing windfalls to patent owners far in excess of their actual innovation.[8]

Patent exhaustion is an important doctrine to allow manufacturers the ability to purchase components free of residual patent rights that put at risk their entire product.

B. The Patent Exhaustion Doctrine Should Leave Technology Companies Adequate Breathing Room To Contract

Nonetheless, patent exhaustion should not be found equally in every patent contract. Technology companies enter many and varied contracts concerning their intellectual property. Such contracts benefit both the companies that enter into the agreements and the consumers who gain from the increased efficiency such agreements can foster.[9]

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[8] *See* Mark A. Lemley & Carl Shapiro, *Patent Holdup and Royalty Stacking*, 85 TEX. L. REV. 1991 (2007) (describing in detail the operation of patent hold-ups and the problems that they create).

[9] *See* U.S. Dep't of Justice and Fed. Trade Comm'n, *Antitrust Guidelines for the Licensing of Intellectual Property* § 2.3 (April 6, 1995) (discussing how licensing "can facilitate integration of the licensed property with complementary factors of production"

For some patents and innovations, Nokia and other technology companies may rely upon the right to exclude and seek to market products embodying their technologies. Sales of a product with exclusive features differentiates the patent holder's products and services and provides a return on investment.[10]

Nokia and others in the communications field are also involved in standards setting organizations. For patents declared essential to a standard, Nokia and others offer fair, reasonable and non-discriminatory ("FRAND" or "RAND") license terms. These are generally non-exclusive licenses given to those who practice the relevant standard, though they can and often do contain various restrictions.

Nokia, like other companies, licenses some of its patents. For this licensing, Nokia collects royalties in consideration for giving up its right to exclude.[11] Generally, Nokia collects royalties at the point in the value chain at which there is a complete user-enabled device.

Nokia and others also enter restricted licenses for certain purposes, *e.g.*, joint research and joint development. These licenses may be limited to certain fields of use or geographical areas.

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and how "[t]his integration can lead to more efficient exploitation of the intellectual property, benefiting consumers").

[10] MICHAEL E. PORTER, COMPETITIVE ADVANTAGE 3 (1985) ("There are two basic types of competitive advantage: cost leadership and differentiation.").

[11] *See, e.g., Deprenyl Animal Health, Inc. v. University of Toronto Innovations Foundation*, 297 F.3d 1343, 1354 (Fed. Cir. 2002) ("A patentee who grants a license [] contracts for valuable consideration in exchange for surrendering the right to exclude the licensee from practicing the patented invention.").

Many technology companies like Nokia also own large worldwide portfolios of patents, meaning that they own issued patents in many jurisdictions such as the United States, Europe or Japan. These companies occasionally enter mutual, portfolio-wide agreements with other companies not to assert current or future patent rights against each other ("non-asserts"). There may be many business reasons for entering such an arrangement.[12] For instance, the number of patents may be a metric for some other aspect of the company's operations such as its research investments. The non-assert may be related to another business relationship between the parties. There may be a desire to avoid patent "thickets"—a term that describes the fact that modern electronics devices often implicate hundreds of different patent rights that can be difficult to separate and identify.[13]

Depending upon the objective circumstances of the transaction and the activities of the licensee, non-assert provisions may or may not implicate the type of "consent for value" exchange that justifies the patent exhaustion doctrine. Contracts that include non-assert provisions may be part of a larger business transaction and may not reflect authorization to practice a particular invention or provide for the extraction of royalties from a particular point in the supply chain. Broad non-

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[12] *See* U.S. Dep't of Justice and Fed. Trade Comm'n, *Antitrust Enforcement and Intellectual Property Rights: Promoting Innovation and Competition* 88-90 (April 2007) (describing the implementation and the efficiencies of non-assertion clauses).

[13] *See* Carl Shapiro, *Navigating the Patent Thicket: Cross Licenses, Patent Pools and Standard-Setting*, in 1 INNOVATION POLICY AND THE ECONOMY 119, 119-22 (Adam Jaffe *et al.*, eds. 2001).

assert provisions should not result in patent exhaustion, for instance, if the non-assert does not reflect an extraction of royalties for particular patented inventions. Factors that bear on this analysis might include whether the parties to the non-assert are competitors and whether the patent owner is attempting to extract royalties from multiple points in the supply chain.

The Court's decision here should give companies the flexibility to prove that the substance of the rights granted and used under a given contract do not implicate the patent exhaustion doctrine. For example, the holder of patents related to the functions of mobile phone chipsets (whether they are patents on the chipsets alone or chipsets combined with other known and non-patented components such as an antenna or keyboard) may license its patents to a chipset manufacturer to make the patented chipsets. If the effect of the transaction is that the patent owner exploited the value of its patented invention in consenting to use of its chipset inventions, the patent exhaustion doctrine should apply. In such a case, the patent holder has received value for giving up its right to exclude and should not be allowed to extract additional royalties from downstream use of the chipset in the value chain, especially where that chipset is used as intended and incorporated with other known components.

A vigorous application of the doctrine, however, should not result in bright-line, inflexible rules with unintended consequences. Parties enter contracts for myriad reasons, and contracts concerning patents—for instance non-assert provisions—should not necessarily result in patent exhaustion. Such a result

would chill contracts and undermine commerce, especially in the technology industry.

Of course, this does not mean that parties should be able to escape the patent exhaustion doctrine by expressing their subjective intent to reserve rights. This would permit improper "double dipping" at multiple points in the value chain. The test should be an objective analysis of the specific contract in question as well as activities performed pursuant to that contract.

In short, *Amici* respectfully urge this Court to adopt an approach that allows flexibility depending on the contract that governs the patent rights at issue and other relevant circumstances.[14]

III. IN THIS CASE, THE FEDERAL CIRCUIT IMPROPERLY ALLOWED MULTIPLE ROYALTIES FOR THE SAME PATENTED INVENTION

In the case before this Court, *LG Electronics, Inc. v. Bizcom Electronics, Inc.*, 453 F.3d 1364 (Fed. Cir. 2006), the Federal Circuit permitted patent restrictions to be unilaterally imposed on downstream purchasers. This gives patent holders wind-

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[14] Such distinctions can be administered by courts. For example, an analogous situation in which flexibility is required is the judicial analysis of whether a particular license contains enough exclusive rights to give the licensee standing to sue infringers on its own behalf without naming the patent owner as a necessary co-plaintiff. *See Textile Prods., Inc. v. Mead Corp.*, 134 F.3d 1481, 1484 (Fed. Cir. 1998) ("Determining whether a licensee is an exclusive licensee or a bare licensee is a question of ascertaining the intent of the parties to the license as manifested by the terms of their agreement and examining the substance of the grant.").

falls and undue leverage because it permits royalties to be extracted multiple times for the same invention at different points in the value chain. Under the approach *Amici* have urged above, therefore, reversal is required.

In *LG v. Bizcom*, the patent owner licensed its patents to Intel, a manufacturer of computer chips. It appears from the record that these patents relate to chips and the combination of chips with known computer components. Intel, in turn, sold chips to petitioners. Plaintiff LG sued petitioners under some of the patents licensed to Intel. The relevant patents contained "system" claims, with the system including a computer chip combined with other known components. Intel did not use the system claims in manufacturing it chips.

The district court held that the system claims were exhausted because Intel was licensed under the patents, and sold chips to the petitioners. The Federal Circuit reversed, reasoning that exhaustion did not apply because the license between LG and Intel was not unconditional but contained restrictions. In particular, "[t]he LGE-Intel license expressly disclaims granting a license allowing computer system manufacturers to combine Intel's licensed parts with other non-Intel components. Moreover, this conditional agreement required Intel to notify its customers of the limited scope of the license, which it did." *Id.* at 1370.

The error in the Federal Circuit's analysis is twofold. First, from the record and decision, it appears that Intel fully complied with the terms of its contract with LG, the patent owner; Intel was free to sell its chips to petitioners (albeit with a notice accompanying the sale). The sales therefore were

authorized—they were fully within the scope of the rights granted to Intel by the patent owner. Second, the petitioners have no contract with the patent owner.

Because the sale from Intel to petitioners was "authorized" and because the patent owner received compensation from Intel for licensing its patents, the Federal Circuit should have applied the patent exhaustion doctrine. As with the notice affixed to the movie projectors in *Motion Picture Patents v. Universal Film*, a patent owner may not amplify its right to exclude by giving notice to a party that has purchased property from a licensed seller.[15]

The policy underlying the patent exhaustion doctrine should require an analysis of whether the patent holder has exploited the value of the patent—for example by receiving royalties in exchange for allowing use or sale of the invention—such that the patent holder can be said to have consented to goods embodying the invention entering the stream of commerce. Where the patent holder has made the choice to extract royalties at a particular point in the value chain, the patent holder should bear the consequences of that choice. The patent laws allow recovery as an incentive to invest in research and development; they do not allow an unlimited right to extract multiple royalties for the same inventions.

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[15] *Cf. Bobbs-Merrill Co. v. Straus*, 210 U.S. 339, 350 (1908) (applying the first sale doctrine to copyright and holding: "In our view the copyright statutes, while protecting the owner of the copyright in his right to multiply and sell his production, do not create the right to impose, by notice, such as is disclosed in this case, a limitation at which the book shall be sold at retail by future purchasers, with whom there is no privity of contract.").

CONCLUSION

For the reasons stated above, the decision below should be reversed or vacated.

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